



**NG ENERGY INTERNATIONAL CORP.**

**INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS**

**JUNE 30, 2022**

# NG ENERGY INTERNATIONAL CORP.

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited, expressed in U.S. Dollars)

June 30, 2022

December 31, 2021

### Assets

#### Current Assets

Cash and cash equivalents	9,863,805	5,848,957
Deposit in escrow (Note 8)	947,220	-
Accounts receivable and prepaids	1,223,857	682,799

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12,034,882 6,531,756

#### Non-current Assets

Restricted cash (Note 4)	2,268,890	2,340,244
VAT receivable	2,577,702	2,284,965
Exploration and evaluation assets (Note 5)	18,994,852	11,980,739
Property, plant and equipment (Note 6)	19,057	8,129

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**Total Assets** 35,895,383 23,145,833

### Liabilities

#### Current Liabilities

Accounts payable and accrued liabilities	4,508,709	2,615,205
Current portion of debt (Note 7)	3,194,102	2,990,801

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7,702,811 5,606,006

#### Non-current Liabilities

Liability component of convertible debentures (Note 8)	9,123,958	-
Decommissioning obligation	1,303,328	806,830

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**Total Liabilities** 18,130,097 6,412,836

### Shareholders' Equity

Share capital (Note 9a)	104,789,474	103,572,805
Contributed surplus	10,344,927	10,349,516
Warrants (Note 9c)	16,821,209	14,669,362
Equity component of convertible debentures (Note 8)	225,564	-
Deficit	(113,673,225)	(111,018,304)
Accumulated other comprehensive loss	(742,663)	(840,382)

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**Total Shareholders' Equity** 17,765,286 16,732,997

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**Total Liabilities and Shareholders' Equity** 35,895,383 23,145,833

Going concern (Note 2)

Related parties (Note 11)

Commitments (Note 13)

Subsequent events (Note 15)

See accompanying notes to the interim condensed consolidated financial statements.

## NG ENERGY INTERNATIONAL CORP.

### INTERIM CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

For the three and six months ended June 30

<i>(Unaudited, expressed in U.S. Dollars)</i>	For the three months ended		For the six months ended	
	2022	2021	2022	2021
<b>Expenses:</b>				
General and administrative	867,185	782,674	1,915,746	1,549,595
Exploration and evaluation expense (Note 5)	109,964	-	158,126	-
Depletion and depreciation (Note 6)	6,162	1,709	8,067	3,245
Net finance expense (Note 10)	254,808	168,772	357,185	328,908
Foreign exchange loss (gain)	997,668	(16,663)	594,918	353,416
	<b>2,235,787</b>	936,492	<b>3,034,042</b>	2,235,164
Loss before income taxes	<b>(2,235,787)</b>	(936,492)	<b>(3,034,042)</b>	(2,235,164)
Deferred income tax recovery (Note 8)	379,121	-	379,121	-
<b>Net loss</b>	<b>(1,856,666)</b>	(936,492)	<b>(2,654,921)</b>	(2,235,164)
<b>Other comprehensive income (loss)</b>				
Foreign currency translation adjustment	125,742	39,371	97,719	55,170
<b>Comprehensive Loss</b>	<b>(1,730,924)</b>	(897,121)	<b>(2,557,202)</b>	(2,179,994)
Loss per share - basic and diluted (Note 9d)	<b>(0.02)</b>	(0.01)	<b>(0.02)</b>	(0.02)
Weighted average number of common shares outstanding	<b>123,727,676</b>	105,608,072	<b>122,780,179</b>	101,635,020

See accompanying notes to the interim condensed consolidated financial statements.

# NG ENERGY INTERNATIONAL CORP.

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three and six months ended June 30

<i>(Unaudited, expressed in U.S. Dollars)</i>	For the three months ended		For the six months ended	
	2022	2021	2022	2021
<b>Operating Activities</b>				
Net loss	(1,856,666)	(936,492)	(2,654,921)	(2,235,164)
Items not affecting cash:				
Depletion and depreciation (Note 6)	6,162	1,709	8,067	3,245
Unrealized foreign exchange loss	587,694	90,521	340,903	462,615
Net finance expense (Note 10)	254,808	168,772	357,185	328,908
Current income tax recovery	(379,121)	-	(379,121)	-
Change in non-cash working capital (Note 14)	(43,084)	79,699	(230,728)	(216,115)
<b>Cash used in operating activities</b>	<b>(1,430,207)</b>	<b>(595,791)</b>	<b>(2,558,615)</b>	<b>(1,656,511)</b>
<b>Investing Activities</b>				
Exploration and evaluation asset additions (Note 5)	(5,916,155)	(3,977,803)	(6,524,475)	(4,551,489)
Property, plant and equipment additions (Note 6)	(11,092)	-	(18,995)	(2,338)
Change in restricted cash	(10,839)	3,776	(12,234)	(3,555)
Change in non-cash working capital (Note 14)	2,538,003	1,228,418	1,290,437	121,756
<b>Cash used in investing activities</b>	<b>(3,400,083)</b>	<b>(2,745,609)</b>	<b>(5,265,267)</b>	<b>(4,435,626)</b>
<b>Financing Activities</b>				
Proceeds on convertible debentures, net of costs (Note 8)	12,069,445	-	12,069,445	-
Proceeds on debt issuance, net of costs	-	600,000	-	800,000
Proceeds on private placement, net of costs	-	-	-	6,992,748
Proceeds on warrant exercises	415,706	109,144	1,002,644	523,972
Proceeds on option exercises	-	-	6,519	25,905
Proceeds put into escrow (Note 8)	(947,220)	-	(947,220)	-
Net finance paid	(94,359)	(4,085)	(91,845)	10,271
<b>Cash provided by financing activities</b>	<b>11,443,572</b>	<b>705,059</b>	<b>12,039,543</b>	<b>8,352,896</b>
<b>Net increase (decrease) in cash</b>	<b>6,613,282</b>	<b>(2,636,341)</b>	<b>4,215,661</b>	<b>2,260,759</b>
Foreign exchange loss on cash	(274,034)	(44,669)	(200,813)	(39,405)
<b>Increase (decrease) in cash</b>	<b>6,339,248</b>	<b>(2,681,010)</b>	<b>4,014,848</b>	<b>2,221,354</b>
Cash, beginning of period	3,524,557	6,111,129	5,848,957	1,208,765
<b>Cash, end of period</b>	<b>9,863,805</b>	<b>3,430,119</b>	<b>9,863,805</b>	<b>3,430,119</b>

Cash is defined as cash and cash equivalents.

See accompanying notes to the interim condensed consolidated financial statements.

## NG ENERGY INTERNATIONAL CORP.

### INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

<i>(Unaudited, expressed in U.S. Dollars)</i>	Number of Common Shares	Share Capital	Contributed Surplus	Warrants	ECCD <sup>(1)</sup>	Deficit	AOCL <sup>(2)</sup>	Total
Balance at December 31, 2021	119,930,155	103,572,805	10,349,516	14,669,362	-	(111,018,304)	(840,382)	16,732,997
Net loss	-	-	-	-	-	(2,654,921)	-	(2,654,921)
Shares issued through warrant exercise	5,011,111	1,205,561	-	(202,917)	-	-	-	1,002,644
Shares issued through option exercise	30,000	11,108	(4,589)	-	-	-	-	6,519
Issuance of convertible debentures	-	-	-	2,354,764	225,564	-	-	2,580,328
Foreign currency translation adjustment	-	-	-	-	-	-	97,719	97,719
<b>Balance at June 30, 2022</b>	<b>124,971,266</b>	<b>104,789,474</b>	<b>10,344,927</b>	<b>16,821,209</b>	<b>225,564</b>	<b>(113,673,225)</b>	<b>(742,663)</b>	<b>17,765,286</b>
Balance at December 31, 2020	89,597,033	89,676,395	10,179,700	11,954,739	-	(104,303,857)	(845,886)	6,661,091
Net loss	-	-	-	-	-	(2,235,164)	-	(2,235,164)
Shares issued through private placement	8,939,300	5,585,450	-	-	-	-	-	5,585,450
Warrants issued through private placement	-	-	-	1,368,882	-	-	-	1,368,882
Shares issued to service provider	4,000,000	1,099,592	(1,099,592)	-	-	-	-	-
Warrants issued to broker	-	-	-	426,868	-	-	-	426,868
Shares issued through warrant exercise	3,638,332	1,502,156	-	(978,184)	-	-	-	523,972
Shares issued through option exercise	120,000	44,263	(18,358)	-	-	-	-	25,905
Foreign currency translation adjustment	-	-	-	-	-	-	55,170	55,170
<b>Balance at June 30, 2021</b>	<b>106,294,665</b>	<b>97,907,856</b>	<b>9,061,750</b>	<b>12,772,305</b>	<b>-</b>	<b>(106,539,021)</b>	<b>(790,716)</b>	<b>12,412,174</b>

(1) Equity component of convertible debentures

(2) Accumulated other comprehensive loss

See accompanying notes to the interim condensed consolidated financial statements.

NG ENERGY INTERNATIONAL CORP.  
Notes to the Interim Condensed Consolidated Financial Statements  
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**1. REPORTING ENTITY**

NG Energy International Corp. (“NG” or the “Company”) is an oil and gas company incorporated in Canada and is engaged in exploration and development activities in Colombia. The Company’s registered address is 25<sup>th</sup> Floor, 700 West Georgia Street, Vancouver, British Columbia, Canada V7Y 1B3. NG’s common shares are listed on the TSX Venture Exchange (“TSX-V”) under the symbol “GASX”.

**2. GOING CONCERN**

These interim condensed consolidated financial statements (“Financial Statements”) have been prepared on a going concern basis, which assumes that the Company will be able to discharge its obligations and realize its assets in the normal course of operations for the foreseeable future.

The Company currently has no production and had no source of revenue. Further, during the six months ended June 30, 2022, the Company recognized a net loss of \$2.7 million and cash used in operating activities of \$2.6 million. As of June 30, 2022, the Company had a working capital of \$4.3 million. For 2022, the Company has contractually committed exploration and development amounts of \$25.3 million as outlined in Note 13, with a large portion of those contractual commitments being fulfilled through the current SN-9 drilling program. The need to obtain capital to fund the Company’s ongoing operations, and capital commitments, and the ultimate development of the Company’s exploration and evaluation assets give rise to a material uncertainty that creates significant doubt on the Company’s ability to continue as a going concern.

In May 2022, the Company closed the offering of convertible debentures for aggregate gross proceeds of \$13.4 million. In February 2021 and October 2021, the Company closed separate private placements for aggregate gross proceeds of \$7.7 million and \$6.5 million, respectively. The Company also received proceeds of \$1.0 million on the exercise of purchase warrants through the second quarter of 2022 (see Note 9). For the year ended December 31, 2021, the Company received proceeds of \$1.7 million on the exercise of purchase warrants. These proceeds are and continue to be used to fund general working capital needs and capital work programs as well as to settle outstanding liabilities, however, as indicated above are not sufficient to fund the Company’s ongoing operational and capital commitments. The Company will require additional sources of capital to fund ongoing operational requirements and capital commitments which may not be available when needed.

Due to the conditions noted above, there remains a material uncertainty surrounding the Company’s ability to obtain sufficient financing to meet its operational requirements and capital commitments. These conditions noted above indicate a material uncertainty exists that may cast significant doubt with respect to the Company’s ability to continue as a going concern.

Management believes that the going concern assumption is appropriate for these Financial Statements and that the Company will be able to meet its operational requirements and capital commitments as well its other potential capital commitments during the upcoming year and beyond. There is no guarantee that the Company will be successful in its endeavors and no certainty as to the timing of the Company’s impending exploration commitments. Should the going concern assumption not be appropriate and the Company is not able to realize its assets and settle its liabilities, these Financial Statements would require

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adjustments to the amounts and classifications of assets and liabilities, and these adjustments could be significant.

### **3. BASIS OF PRESENTATION**

#### **Statement of compliance**

These Financial Statements have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” under International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board.

These Financial Statements follow the same accounting policies and method of computation as the Company’s annual consolidated financial statements for the year ended December 31, 2021, with the exception of certain disclosures that are normally required to be included in annual consolidated financial statements which have been condensed or omitted. These Financial Statements should be read in conjunction with the Company’s annual consolidated financial statements for the year ended December 31, 2021. These Financial Statements were authorized for issuance by the Company’s Board of Directors on August 16, 2022.

#### **Basis of measurement**

These Financial Statements have been prepared on the historical cost basis except for certain financial and non-financial assets and liabilities, which have been measured at fair value. The methods used to measure fair value are consistent with the Company’s December 31, 2021 annual consolidated financial statements.

The ongoing impact of COVID-19 on the Company’s operations and future financial performance is uncertain. The continued impact of COVID-19 will depend on future developments that are uncertain and unpredictable, its continued impact on capital and financial markets on a macro-scale and any new information that may emerge COVID-19 continues to present uncertainty and risk with respect to the Company, its performance, and estimates and assumptions used by management in the preparation of its financial results.

Estimates and judgments made by management in the preparation of these Financial Statements are subject to a higher degree of measurement uncertainty during this volatile period.

#### **Functional and presentation currency**

These Financial Statements are presented in United States (US) dollars, with the exception of Canadian dollar unit prices (“C\$”) where indicated. The Company’s functional currency is the Canadian dollar while each of its subsidiaries with significant activity has US dollar functional currency, which is the primary economic environment in which each subsidiary operates.

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**Significant accounting policies**

The Company's significant accounting policies can be read in Note 4 to the Company's annual consolidated financial statements as at and for the year ended December 31, 2021.

**4. RESTRICTED CASH**

As of June 30, 2022, funds totaling \$2,268,890 (December 31, 2021 - \$2,340,244) comprised the balance represented in restricted cash. The composition of this amount is as follows:

	<b>June 30, 2022</b>	<b>December 31, 2021</b>
SN-9 ANH Guarantee	1,973,174	2,039,321
Tiburon ANH Guarantee	295,716	300,923
	<b>2,268,890</b>	<b>2,340,244</b>

Term deposits of \$2.4 million and \$0.3 million were established to secure performance guarantees required by the Colombian National Hydrocarbon Agency ("ANH") under the E&P Contracts for the SN-9 and Tiburon Block. The SN-9 and Tiburon deposits amounts were defined in US dollars by the ANH but are held in Colombian pesos with Colombian banks and are subject to foreign currency fluctuation risks in relation to the US dollar. These deposits are to be released to the Company once current phase commitments under each E&P Contract are completed. As of June 30, 2022, the balances of the SN-9 term deposit and Tiburon term deposit were \$1,973,174 and \$295,716 respectively.

**5. EXPLORATION AND EVALUATION ASSETS**

Exploration and Evaluation ("E&E") assets consists of the following amounts:

Balance, December 31, 2020	8,398,358
Additions	5,488,568
MC reduction from Aruchara loan conversion to royalty	(2,080,000)
Revision of asset retirement estimate	173,813
Balance, December 31, 2021	11,980,739
Additions	6,524,475
Asset retirement cost addition	336,781
Revision of asset retirement estimate	152,857
<b>Balance, June 30, 2022</b>	<b>18,994,852</b>

The Company incurred ongoing maintenance costs of \$158,126 for the Tiburon CGU from the third-party operator for the six months ended June 30, 2022, which are expensed as E&E expenses. No further capital activity has occurred in the Tiburon block in the period.



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**6. PROPERTY, PLANT, AND EQUIPMENT**

The components of the Company's property, plant and equipment ("PP&E") consist of development and production assets ("D&P") and corporate assets. D&P assets include the Company's interest in any developed natural gas properties. The components of the Company's assets are as follows:

<b>Cost</b>	<b>D&amp;P</b>	<b>Corporate</b>	<b>Total</b>
Balance, December 31, 2020	-	232,101	232,101
Capital additions	-	3,096	3,096
Balance, December 31, 2021	-	235,197	235,197
Capital additions	-	18,995	18,995
<b>Balance, June 30, 2022</b>	<b>-</b>	<b>254,192</b>	<b>254,192</b>
<b>Accumulated depletion, depreciation and impairment</b>			
Balance, December 31, 2020	-	220,300	220,300
Additions	-	6,768	6,768
Balance, December 31, 2021	-	227,068	227,068
Additions	-	8,067	8,067
<b>Balance, June 30, 2022</b>	<b>-</b>	<b>235,135</b>	<b>235,135</b>
<b>Net book value</b>			
Balance, December 31, 2021	-	8,129	8,129
<b>Balance, June 30, 2022</b>	<b>-</b>	<b>19,057</b>	<b>19,057</b>

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**7. DEBT AND DEBT ISSUANCE COSTS**

The Company's debt as of June 30, 2022, consists of the following:

	Aruchara	Maria Conchita	SN-9	Total
Balance, December 31, 2020	1,641,763	380,060	1,985,941	4,007,764
Utilized portion of drawdown facility	200,000	-	600,000	800,000
Accrued interest expense	219,834	7,924	330,250	558,008
Accrued commitment fees	2,833	-	44,750	47,583
Amortization of transaction costs	15,570	468	29,860	45,898
Loan repayment	-	(388,452)	-	(388,452)
Conversion to Royalty Interest	(2,080,000)	-	-	(2,080,000)
Balance, December 31, 2021	-	-	2,990,801	2,990,801
Accrued interest expense	-	-	186,458	186,458
Amortization of transaction costs	-	-	16,843	16,843
<b>Balance, June 30, 2022</b>	<b>-</b>	<b>-</b>	<b>3,194,102</b>	<b>3,194,102</b>
Current portion of debt	-	-	3,194,102	3,194,102
Non-current portion of debt	-	-	-	-
<b>Balance, June 30, 2022</b>	<b>-</b>	<b>-</b>	<b>3,194,102</b>	<b>3,194,102</b>

**SN-9 Loan**

In August 2020, the Company entered into a loan in the amount of \$2.5 million, secured by the assets of the Company. The loan is denominated in US dollars, matures in August 2022, and bears interest at the rate of 15% per annum. The proceeds of the loan are to be utilized for the costs of exploratory activities in the SN-9 block. Under the terms of the loan agreement, the lenders have also been granted a 3% overriding royalty on NG's working interest in the gross production of the SN-9 block. Total interest and principal is payable at the maturity date, although the lenders have an option to convert the loan principal and interest into another 3% overriding royalty on NG's working interest in the gross production of the SN-9 block at the lenders' discretion at any point prior to the maturity date. Currently, no value has been attributed to the 3% overriding royalty or the conversion option for an additional 3% overriding royalty as this is contingent upon the successful realization of commercially viable operations within the SN-9 block.

Of the principal amount of the SN-9 loan, \$0.6 million had been accounted for as a "drawdown" facility given this funding had been made available to the Company for purposes of covering expenditures on the SN-9 Block as necessary, in contrast to the other \$1.9 million of the principal being provided as cash funds to the Company on the date of issuance. Finance costs incurred in relation to this drawdown component of the loan have been classified as a commitment fee. In June 2021, cash funding for the full amount of the drawdown facility was transferred to the Company, bringing the loan amount from \$1.9 million to \$2.5 million.

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## 8. CONVERTIBLE DEBENTURES

In May 2022, the Company completed a prospectus offering of convertible debentures for aggregate proceeds of \$13.4 million (C\$17.1 million). Each debenture unit is denominated in Canadian dollars and consists of: (i) one 8% convertible unsecured debenture in the principal amount of \$1,000 (each a “Convertible Debenture”) maturing on May 20, 2027; and (ii) 400 common share purchase warrants of the Company, with each warrant entitling the holder thereof to purchase one common share of the Company at an exercise price of C\$1.40 per share for a period of five years ending May 20, 2027. Under the terms of the debentures, the lenders may at any time prior to the maturity date convert any or all of the principal amount of the debentures into shares of the Company at a conversion price of C\$1.20 per share.

The Company is entitled to force the exercise, at any time after May 20, 2024, of all but not less than all of the then outstanding warrants on not more than 60 days’ and not less than 30 days’ notice, if the volume weighted average trading price of the common shares on the TSX-V is greater than C\$2.00 for the ten consecutive trading days preceding the notice.

As the debenture has a conversion feature, the equity and debt components must be bifurcated with value assigned to each as well as to warrants issued as part of the offering. The value assigned to the liability on the date of issuance was the present value of the contractually determined stream of future cash flows discounted at 15%, being the estimated rate that the market would apply to an instrument with comparable credit status and provide substantially the same cash flows, on the same terms, but without the conversion option. From the date of issuance, the liability component accretes up to its principal value using the effective interest method, with the charge recorded in finance (income) expenses in the consolidated statement of loss. The fair value assigned to the warrants on the date of issuance was based on the Black-Scholes option pricing model. Finally, the residual balance of proceeds on the offering was assigned to the conversion feature. On account of a temporary difference between the tax basis and the accounting basis of the Convertible Debentures due to the bifurcation of the book values between liability and equity components, a deferred income tax recovery of \$379,121 was recognized on the consolidated statement of loss for the six months ended June 30, 2022, with an offsetting reduction to the equity component of the Convertible Debentures in accordance with IFRS.

The components of the Company’s convertible debentures as of June 30, 2022 are as follows:

	<b>Liability Component</b>	<b>Equity Component</b>	<b>Warrants</b>	<b>Total</b>
On date of issuances, net of transaction costs	9,109,995	604,685	2,354,764	12,069,444
Deferred income tax recovery	-	(379,121)	-	(379,121)
Accretion	55,179	-	-	55,179
Impact of foreign exchange	(41,216)	-	-	(41,216)
<b>Balance, June 30, 2022</b>	<b>9,123,958</b>	<b>225,564</b>	<b>2,354,764</b>	<b>11,704,286</b>

Interest on the debentures is payable monthly in arrears on the last day of each month, commencing June 30, 2022. An amount equal to the interest payable under the debentures from the closing date of the offering until the first anniversary of the offering was placed in escrow upon closing of the offering and shall be paid out to holders of debentures on a monthly basis. Interest thereafter shall be paid out of the Company’s cash flow. As of June 30, 2022, total balance of deposit in escrow was \$947,220.

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**9. SHARE CAPITAL**

**a) Common shares**

As at June 30, 2022, the Company was authorized to issue an unlimited number of common shares, with no par value, with holders of common shares entitled to one vote per share and to dividends, if declared. Outstanding common shares as of June 30, 2022, are as follows:

	Common shares	Amount (\$)
Balance, December 31, 2020	89,597,033	89,676,395
Shares issued through private placements (net of costs)	17,080,900	9,800,062
Shares issued to service provider	4,000,000	1,099,592
Shares issued through warrant exercise	9,082,222	2,923,959
Shares issued through option exercise	170,000	72,797
Balance, December 31, 2021	119,930,155	103,572,805
Shares issued through warrant exercise	5,011,111	1,205,561
Shares issued through option exercise	30,000	11,108
<b>Balance, June 30, 2022</b>	<b>124,971,266</b>	<b>104,789,474</b>

**b) Stock options**

The Company's stock option plan provides for the issue of stock options to directors, officers, employees, charities and consultants. The plan provides that stock options may be granted up to a number equal to 10% of the Company's outstanding shares. Vesting terms are determined by the Board of Directors as they are granted and currently include periods ranging from immediately to one-third on each anniversary date over three years. The options' maximum term is ten years.

As at June 30, 2022, a total of 9,885,400 (December 31, 2021 – 9,915,400) options were issued and outstanding under this plan. Options which are forfeited/expired are available for reissue.

A summary of the changes in stock options is presented below:

	Stock options	Weighted average exercise price (C\$)
Balance, December 31, 2020	7,912,600	1.01
Options issued	2,250,000	0.91
Options exercised	(170,000)	0.33
Options forfeited	(77,200)	7.95
Options amended (old price)	(125,000)	8.00
Options amended (new price)	125,000	0.91
Balance, December 31, 2021	9,915,400	0.85
Options exercised	(30,000)	0.275
<b>Balance, June 30, 2022</b>	<b>9,885,400</b>	<b>0.85</b>

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The value of the stock options vesting in the six months ended June 30, 2022, equated to \$nil (June 30, 2021 - \$nil).

The following summarizes information about stock options outstanding as at June 30, 2022:

Exercise prices (C\$)	Number of options outstanding	Weighted average term to expiry (years)	Number of options exercisable
0.275	1,346,000	7.98	1,346,000
0.45	2,125,000	7.01	2,125,000
0.91	2,375,000	8.83	2,375,000
1.00	3,900,000	8.40	3,900,000
6.10	29,400	4.14	29,400
8.00	110,000	5.11	110,000
	<b>9,885,400</b>	<b>8.10</b>	<b>9,885,400</b>

**c) Warrants**

As at June 30, 2022, a total of 27,337,062 (December 31, 2021 – 25,489,373) warrants were issued and outstanding. A summary of the change in total warrants is presented below:

	Warrants	Weighted average exercise price (C\$)
Balance, December 31, 2020	21,449,745	3.03
Warrants issued on private placement	12,469,650	1.40
Broker warrants issued on private placement	652,200	1.16
Warrants exercised	(9,082,222)	0.23
Balance, December 31, 2021	25,489,373	3.18
Warrants issued with convertible debentures	6,858,800	1.40
Warrants exercised	(5,011,111)	0.26
<b>Balance, June 30, 2022</b>	<b>27,337,062</b>	<b>3.27</b>

The following summarizes information about total purchase warrants outstanding as at June 30, 2022:

Exercise prices (C\$)	Number of warrants outstanding	Weighted average term to expiry (years)	Number of warrants exercisable
1.15	475,600	1.61	475,600
1.20	8,141,600	1.31	8,141,600
1.40	6,858,800	4.89	6,858,800
1.50	2,036,412	1.50	2,036,412
1.75	4,199,650	1.61	4,199,650
10.50	5,625,000	0.08	5,625,000
	<b>27,337,062</b>	<b>2.02</b>	<b>27,337,062</b>

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For the warrants issued during the six months ended June 30, 2022 related to the offering of convertible debentures (Note 8), the Black-Scholes option pricing model along with other qualitative factors was used to estimate their fair value with the following assumptions:

Share price	C\$0.98
Exercise price	C\$1.40
Expected stock price volatility	75%
Term	5 years
Expected dividend yield	0%
Risk-free interest rate	2.70%
Fair value warrant price	C\$0.54

On July 31, 2022, 5,625,000 warrants at an exercise price of C\$10.50 expired, reducing the balance of outstanding warrants to 21,712,062.

#### d) Loss per share

For the purposes of the loss per share calculations for the periods ended June 30, 2022 and 2021, there is no difference between the basic loss per share and the diluted loss per share amounts. For the period ended June 30, 2022, potential effects of outstanding Convertible Debentures, stock options and purchase warrants were excluded as either i) their impact was anti-dilutive for the periods when the Company had a net loss; or ii) the average market price of the common shares of the Company was less than the exercise price of existing stock options and purchase warrants.

## 10. FINANCE INCOME AND EXPENSE

The components of net finance expense/income for the three and six months ended June 30, 2022 and 2021, are as follows:

	<u>Three months ended</u>		<u>Six months ended</u>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
Interest income	(59,759)	(18,786)	(84,474)	(41,451)
Interest expenses and bank charges	246,826	152,662	362,777	297,312
Commitment fees	-	22,250	-	47,583
Accretion on decommissioning obligations	4,011	1,376	6,860	2,750
Accretion on liability component of convertible debentures	55,179	-	55,179	-
Amortization of transaction costs on loans	8,551	11,270	16,843	22,714
<b>Total net finance expense</b>	<b>254,808</b>	<b>168,772</b>	<b>357,185</b>	<b>328,908</b>

## 11. RELATED PARTIES

During the periods ended June 30, 2022 and 2021, there were separate related party transactions as follows:

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- I. The Company paid a monthly advisory fee to a firm affiliated with a director of NG. As per the consulting agreement, NG paid the firm \$51,907 and \$52,927 for the six months ended June 30, 2022 and 2021, respectively. Furthermore, additional fees are paid pursuant to the closing of successful financing arrangements, divestitures, or acquisitions for which the firm provides advisory services. Administrative success fees of \$133,661 were paid upon closing of the 2022 convertible debenture offering and \$81,017 upon closing of the 2021 private placements through units for the six months ended June 30, 2022 and 2021, respectively. As at June 30, 2022, there were no outstanding payables owed to the firm.
- II. The Company incurred professional fees for general corporate services as well as technical services related to exploration activities in Colombia of \$609,548 and \$119,906 for the six months ended June 30, 2022 and 2021, respectively. Such services were provided by a contracted service provider affiliated with a certain director of the Company. As at June 30, 2022, there were no outstanding payables owed to the service provider.
- III. The Company incurred office rental costs in Colombia expenditures of \$40,931 and \$23,846 for the six months ended June 30, 2022 and 2021, respectively. The related office space was rented from an entity affiliated with a certain director of the Company. As at June 30, 2022, there were no outstanding payables owed to the lessor entity.
- IV. In May 2022, the Company completed a prospectus offering of convertible debentures of 17,147 debenture units at \$1,000 per unit, with 400 common share purchase warrants issued per unit. Of the units issued, 7,135 units were issued for subscriptions by directors of the Company or investors related to directors of the Company.
- V. In October 2021, the Company completed a non-brokered private placement through units for proceeds of \$6,474,063 before issue costs. Of the total proceeds, approximately \$50,579 were from subscriptions by directors or by investors related to directors of the Company.
- VI. In February 2021, the Company completed a non-brokered private placement offering of 429,300 units on the same terms as those issued pursuant to the February 2021 bought deal financing, for a deemed value of \$388,452. The issuance of the non-brokered private placement through units was completed as repayment for the outstanding balance of the Maria Conchita Loan of \$350,000 plus accrued interest. Of the units issued, 253,000 units were issued to Company directors.

## **12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for measuring and managing these risks, and the Company's management of capital. The Board of Directors has overall responsibility for the establishment and

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oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

**Credit risk**

Credit risk reflects the risk of loss if counterparties do not fulfill their contractual obligations. The carrying amount of cash and cash equivalents, deposits in escrow, accounts receivable, VAT receivable and restricted cash represent the maximum credit exposure. As at June 30, 2022, the Company had \$2,268,890 (December 31, 2021 - \$2,340,244) in restricted cash towards development activity and joint operations in Colombia.

As at June 30, 2022, the Company had \$1,223,857 (December 31, 2021 - \$682,799) in accounts receivable and prepaids. The majority of which related to prepaid expenses. The Company does not consider any of its receivables past due.

The Company maintained a VAT receivable balance of \$2,577,702 as of June 30, 2022 (December 31, 2021 - \$2,284,965), which is classified as a non-current asset. The Company considers these VAT balances to be collectible in the future as such VAT amounts will be utilized to offset future VAT charged on sales realized by the Company on future oil and gas production that would otherwise be required to be paid to the Colombian tax authorities.

The Company held cash and cash equivalents of \$9,863,805 (December 31, 2021 - \$5,848,957) and deposits in escrow of \$947,220 (December 31, 2021 - \$nil) as at June 30, 2022. The Company manages the credit exposure related to cash and cash equivalents and deposits in escrow by ensuring counter parties (e.g., banks) maintain satisfactory credit ratings and monitors all investments to ensure a stable return.

**Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due and describes the Company's ability to access cash. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient cash resources to finance operations, fund capital expenditures, and to repay debt and other liabilities of the Company as they come due, without incurring unacceptable losses or risking harm to the Company's reputation. The Company's processes for managing liquidity risk include preparing and monitoring capital and operating budgets, coordinating and authorizing project expenditures, and authorization of contractual agreements. The Company seeks additional financing based on the results of these processes (see also Note 2). The budgets are updated when required as conditions change.

The following table outlines the contractual maturities of the Company's financial liabilities at June 30, 2022:



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	Less than 1 year	1-2 years	Thereafter	Total
Trade accounts payable	2,053,561	-	-	2,053,561
Capital payables	2,455,148	-	-	2,455,148
SN-9 loan - principal	2,500,000	-	-	2,500,000
SN-9 loan - finance costs	698,958	-	-	698,958
Convertible debentures - principal	-	-	13,306,689	13,306,689
	<b>7,707,667</b>	-	<b>13,306,689</b>	<b>21,014,356</b>

**Market risk**

Market risk is the risk or uncertainty that changes in price, such as commodity prices, foreign exchange rates, and interest rates will affect the Company's net earnings and the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns. From time to time, the Company may utilize financial derivative contracts to manage market risks in accordance with the risk management policy that has been approved by the Board of Directors. There were no financial derivative contracts or embedded derivatives outstanding at June 30, 2022 nor were there any in the previous year ended December 31, 2021.

**Commodity price risk**

Commodity price risk is the risk that the fair value of the future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are affected not only by the United States dollar, but also by world economic events that dictate the levels of supply and demand. The Company currently has no production revenue as of June 30, 2022.

**Foreign currency risk**

Foreign currency risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign currency exchange rates. Some of the Company's business transactions and commitments occur in currencies other than US dollars. A portion of the Company's oil and natural gas activities in Colombia transact in Colombian Peso (COP\$). In addition, the majority of the Company's financing and a portion of the administrative costs will be based and paid in Canadian dollars and COP\$. Therefore, the Company is exposed to the risk of fluctuations in foreign exchange rates between US dollars, COP\$ and Canadian dollars.

As at June 30, 2022, the Company had not entered into any foreign currency derivatives to manage its exposure to currency fluctuations, nor were there any foreign currency derivatives as at the previous year ended December 31, 2021.

**Interest rate risk**

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in prevailing market interest rates. Fluctuations of interest rates for the periods ended June 30, 2022 and 2021, would not have had a significant impact on cash and cash equivalents and short-term investments. Furthermore, the Company is not currently exposed to interest rate risk on its interest-bearing loans given these debt instruments are all subject to fixed interest rates.

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**Capital management**

The Company's objectives when managing capital are to ensure the Company will have sufficient financial capacity, liquidity, and flexibility to fund the Company's operations, growth, and ongoing exploration and development commitment activities of its oil and gas assets. The Company is dependent upon funding these activities through a combination of available cash, debt, and equity, which it considers to be the components of its capital structure as outlined below. To maintain or adjust the capital structure, from time to time the Company may issue or repurchase common shares or other securities, sell assets or adjust its capital spending to manage current and projected debt levels.

The Company monitors leverage and adjusts its capital structure based on its net debt level. Net debt is defined as the principal amount of its outstanding debt less working capital. In order to facilitate the management of its net debt, the Company prepares annual budgets, which are updated as necessary depending on varying factors including current and forecast commodity prices, changes in capital structure, execution of the Company's business plan and general industry conditions. The annual budget is approved by the Board of Directors and updates are prepared and reviewed as required.

	<b>June 30, 2022</b>	<b>December 31, 2021</b>
Convertible debentures (8%)	13,306,689	-
SN-9 loan (15%)	3,198,958	3,012,500
Total debt	16,505,647	3,012,500
Working capital (deficit) <sup>(1)</sup>	7,526,173	3,916,551
<b>Net debt (net surplus)</b>	<b>8,979,474</b>	<b>(904,051)</b>

1) Calculation of working capital excludes current portion of debt as presented on the consolidated statement of financial position.

The Company regularly monitors its capital structure and, as necessary, adjusts to changing economic circumstances and the underlying risk characteristics of its assets to meet current and upcoming obligations and investments by the Company. The Company frequently reviews alternate financing options and arrangements to meet its current and upcoming commitments and obligations.

**Fair value of financial instruments**

The Company's financial instruments as at June 30, 2022, include cash and cash equivalents, deposits in escrow, accounts receivable, VAT receivable, restricted cash, accounts payable and accrued liabilities, and debt. These financial instruments are initially recognized at fair value and subsequently measured at amortized cost. The fair values of the current financial instruments approximate their carrying amounts due to their short terms to maturity.

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### 13. COMMITMENTS

#### Capital Commitments

A summary of the Company's estimated capital commitments (in millions of dollars) are as follows:

<b>Block</b>	<b>2022</b>	<b>2023</b>	<b>Total</b>
SN-9 Block <sup>(1)</sup>	22.3	-	<b>22.3</b>
Tiburón Block <sup>(2)</sup>	3.0	-	<b>3.0</b>
<b>Total</b>	<b>25.3</b>	-	<b>25.3</b>

- 1) NG's ANH commitment to carry out the minimum requirement to drill two exploration wells (for which the Company will pay 100% of the costs under the terms of the SN-9 Acquisition) according to Phase 1 of the contractual exploration program. The aforementioned ANH commitment was approved by the ANH in May 2022 to replace the previous minimum requirement to process and interpret 204.4 km of 2D seismic and drill one exploration well. The Company has received an extension up to August 20, 2022, for the completion of the Phase 1 exploration program, and expects that an extension request to the ANH for additional time will be granted. The first exploration well was completed subsequent to June 30, 2022, with the second exploration well to be commenced in Q3 2022.
- 2) Relates to NG's share of the ANH commitment to carry out the minimum requirement to acquire, process, and interpret 69.75 km<sup>2</sup> of 3D seismic according to Phase 3 of the contractual exploration program. Currently, operations are delayed due to community disputes in the region, with 148 days to fulfill the commitment after the local disputes are resolved and the activities carried out in the previously proposed area. The Company assumes that activities related to the permits for the new seismic survey will commence in 2022.

The expenditures provided in the above table only represent the Company's estimated cost to satisfy contract requirements. Actual expenditures to satisfy these commitments, initiate production or create reserves may differ from these estimates. The expenditures in the above table are based on the latest possible date required per contract and may be incurred at an earlier date.

#### Contractual Commitments

##### *Natural Gas Compression Services*

In November 2021, the Company entered into a take-or-pay service contract with Surenergy SAS ESP ("Surenergy") for the compression of natural gas production derived from the Maria Conchita Block. Under the terms of the contract, Surenergy will install and maintain necessary infrastructure and equipment in order to provide daily natural gas compression services for a capacity of 16 million cubic feet per day ("MMcf/d") of natural gas production for a term of six years from the commencement of commercial natural gas production within the Maria Conchita Block. For these services, the Company has committed to pay a monthly service fee of \$96,240 to Surenergy over the six-year term of the service contract. The monthly service fee is to be paid to Surenergy each month regardless of whether the Company fully utilizes the daily stipulated gas compression capacity made available by Surenergy under the terms of the service contract. Future amendments to the service contract may be made upon mutual agreement of both parties. The Company may unilaterally terminate the service contract prior to the completion of the six-year term with 30 days notices, but a final fee equal to 20% of the monthly service fee for the remaining life of the service contract would be assessed and paid by the Company. As of the date hereof, commercial natural gas production has not commenced within the Maria Conchita Block.

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*Natural Gas Delivery Contract*

The Company has entered into a take-or-pay natural gas delivery contract with Energy Transitions SAS ESP (the “Buyer”) for a ten-year period that was initially to commence December 1, 2021, pending initiation of commercial natural gas production within the Maria Conchita Block. The Company is to deliver natural gas production volumes of 16 MMcf/d (the “Daily Committed Production”) to Energy Transitions SAS ESP once production testing has been completed after well tie-in (the “Committed Period”), with gas sales prices commencing at \$5.08 per million British thermal units (“MMBtu”) and indexed annually with the Producers Price Index (PPI) series WPSFD41312. During the Committed Period, in the event that the Company is unable to deliver the Daily Committed Production, the Company will be required to compensate the Buyer the monetary equivalent of the production deficiency. As of the date hereof, commercial natural gas production has not commenced within the Maria Conchita Block.

*Natural Gas Transportation Services*

In December 2020, the Company entered into a memorandum of understanding (the “MOU”) with GTX International Corp. (“GTX”) pursuant to which GTX is to build and operate production facilities and pipeline (the “Pipeline Facilities”) with capacity of 20 million cubic feet per day (“MMcf/d”) that will extend from the Company’s Maria Conchita field in Colombia to existing national infrastructure. The MOU outlines that the Company and GTX will enter into a take-or-pay agreement (the “ToP Agreement”) pursuant to which NG will agree to transport, or pay for, 16 mmcf/d through the Pipeline Facilities for a period of six years (the “Guaranteed Commitment”) at a tariff of \$0.90 per MMBtu of gas. The Company’s Guaranteed Commitment will convert after six years into payment for only the capacity that is used. The ToP Agreement will have a term of 18 years, after which ownership of the Pipeline Facilities will transfer to the Company. Under the terms of the MOU, the execution of the ToP Agreement is conditional upon 1) the successful raise by GTX of \$10 million in financing (which was accomplished), and 2) the construction of the Pipeline Facilities and the satisfactory results of operational trials of the infrastructure by GTX.

**SUPPLEMENTAL CASH FLOW INFORMATION**

Information regarding changes in non-cash working capital for the periods ended June 30, 2022 and 2021 is as follows:

	Three months ended		Six months ended	
	2022	2021	2022	2021
Accounts receivable and prepaids	377,744	121,014	(541,058)	(65,792)
VAT receivable	(39,177)	(50,034)	(292,737)	(471,528)
Accounts payable and accrued liabilities	2,156,352	1,237,137	1,893,504	442,961
<b>Change in non-cash working capital</b>	<b>2,494,919</b>	<b>1,308,117</b>	<b>1,059,709</b>	<b>(94,359)</b>
Relating to:				
Operating activities	(43,084)	79,699	(230,728)	(216,115)
Investing activities	2,538,003	1,228,418	1,290,437	121,756
<b>Change in non-cash working capital</b>	<b>2,494,919</b>	<b>1,308,117</b>	<b>1,059,709</b>	<b>(94,359)</b>

#### **14. SUBSEQUENT EVENTS**

##### **Convertible debenture conversion**

In August 2022, a certain debenture holder elected to convert C\$350,000 face value of their debentures to shares of the Company at the conversion price of C\$1.20 per share, resulting in the issuance of 291,666 common shares.

##### **SN-9 loan conversion to royalty**

In August 2022, debt holders of the SN-9 loan (see Note 7) exercised the conversion option to convert the loan principal and cumulative interest payable to the additional 3.0% overriding royalty on NG's working interest in the gross production of the SN-9 block. Due to the conversion, the Company no longer has an outstanding balance owed to the SN-9 debt holders.

##### **Stock option grant**

In August 2022, the Company granted 2,640,893 stock options to directors, officers, employees, and consultants of the Company. The options are exercisable at a price of C\$1.14 per share for a period of 10 years.